

File with National Tea Co.



1972 Annual Report

YEAR ENDED APRIL 1, 1972

***New
Ideas***

***New
Management
Team***

***New
Progress***

***New
Objectives***

***New
Emphasis***



GEORGE C. METCALF
Chairman of the Board



F. BRUCE KRYSIAK
President & Chief Executive Officer



1972 ANNUAL REPORT

Board of Directors

GEORGE C. METCALF
Chairman of the Company,
Chairman, Loblaw Companies Limited

F. BRUCE KRYSIAK
President & Chief Executive Officer

PAUL KARUKSTIS
Vice President, Finance and
Secretary-Treasurer

RICHARD G. MEECH
Barrister and Solicitor

W. STRUAN ROBERTSON
Partner, Borden, Elliot, Kelley and
Palmer, Attorneys

W. GARFIELD WESTON
Chairman of the Board,
George Weston Limited

Officers

F. BRUCE KRYSIAK President & Chief Executive Officer

NAT MALT
Senior Vice President
Divisional Operations

RODGERS N. BROWN
Vice President, Division Manager

JAMES E. COLLOTON
Vice President, Warehousing
& Transportation

MARVIN E. CROSS
Vice President, Produce Operations

PAUL KARUKSTIS
Vice President, Finance and
Secretary-Treasurer

JACK F. KRISHER
Vice President, Advertising

WILLIAM H. LOWMAN
Vice President, Meat Operations

H. LAWRENCE MARTIN
Vice President, Personnel

MANSON F. McCORMICK
Vice President, Legal &
Assistant Secretary

ELMER E. MILLER
Vice President, Division Manager

JOSEPH P. QUIRK
Vice President, Store Operations

RICHARD F. SCHINDLER
Vice President, Marketing

HARRY B. SMITH
Vice President, Division Manager

ROBERT E. SWAIN
Vice President, Store Planning
& Equipment

WILSON B. THOMAS
Vice President, Real Estate
Assistant Secretary

E. CHARLES WINLAND
Comptroller

NATIONAL TEA CO.

Executive Offices
8303 West Higgins Rd.
Chicago, Illinois 60631

DIVISIONAL OFFICES AND WAREHOUSES

Chicago, Minneapolis,
Milwaukee, Indianapolis,
St. Louis, New Orleans, Davenport,
Denver, Youngstown

TRANSFER AGENTS

The First National Bank of Chicago
Chicago, Illinois

The Chase Manhattan Bank
New York, New York

REGISTRARS

Continental Illinois National Bank
& Trust Company of Chicago
Chicago, Illinois

Chemical Bank
New York, New York

TRANSFER AND PAYING AGENTS

3½ % Debentures
Chemical Bank
New York, New York

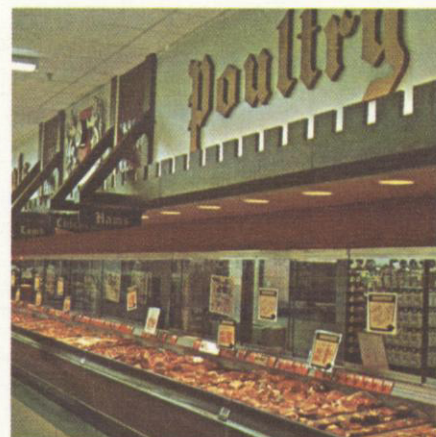
5% Debentures
Morgan Guaranty Trust Company
New York, New York



New Emphasis

National's new emphasis on the development of a major private label line has been directed toward the Orchard Park identification. Its regal and attractive blue label dominates the shelves of our stores and it is quickly growing to be the number one favorite with our customers. The phenomenal growth and acceptance of the Orchard Park fine foods line with National customers is a well-deserved preference, for the quality of this line is outstanding. We enthusiastically predict that the preference for Orchard Park food products will continue to grow, with a good variety of nationally known manufacturers' labels to give our customers the best variety of grocery products at all times.





New Identity

"Super National Markets"—our new logo has already become a familiar symbol for millions of food shoppers. Its bright colors and easily read letters proclaim our identity as National Super Markets.

Our store interiors, too, have taken on a distinctive decor treatment. The charm and warm friendliness of our "Old English" interiors has proven a welcome innovation in our new National Super Markets. Particularly pleasing to your new management is the economy of this new pleasant interior decor. We like our Old English decor . . . so do our customers.

Other National identities have also been given distinctive, customized interior designs. Three new basic designs: Old English, rural and contemporary decor have been added to your new store planning. Each design is intended to project its own particular image and store identity for food shoppers.





Primal Source Identity

New Ideas

Our new ideas anticipate consumers' needs as well as their desire for a greater knowledge of how to do a better job with weekly food shopping.

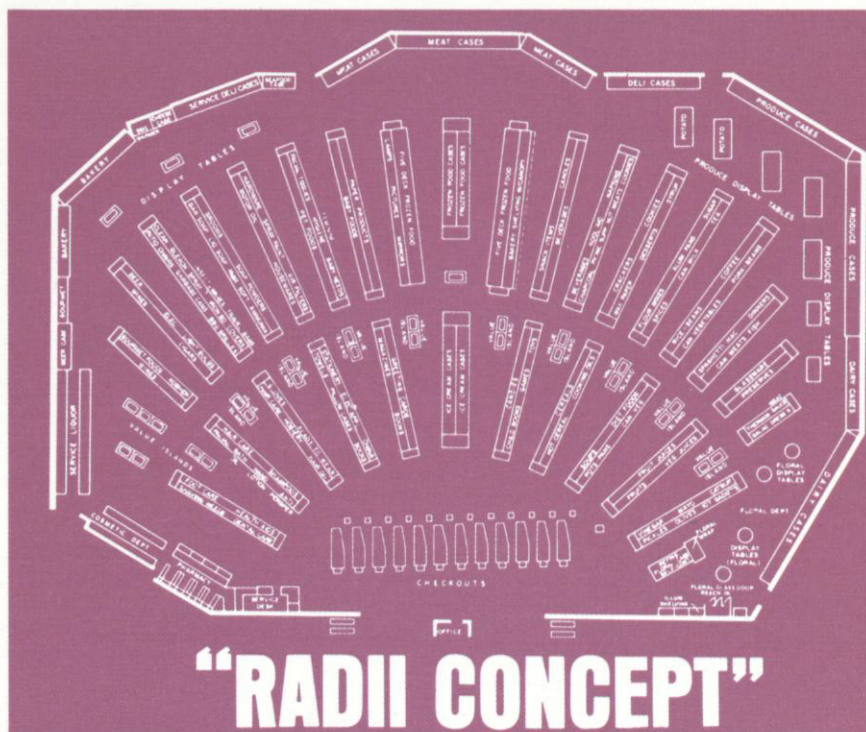
Some of the new ideas which made their debut at National Super Markets during this year include primal source identification. Pilot stores in the new program carried channel markers adjacent to each cut of meat advising customers of the primal source of the cut to enable homemakers to make a better buying decision.

Open dating on most of our private label products will soon extend to the complete Orchard Park line of perishables. The practice of open dating instead of the closed coding system invites greater customer satisfaction as well as better control of our merchandise rotation program. We have found open dating to be an asset and are encouraging furtherance of the practice among suppliers.

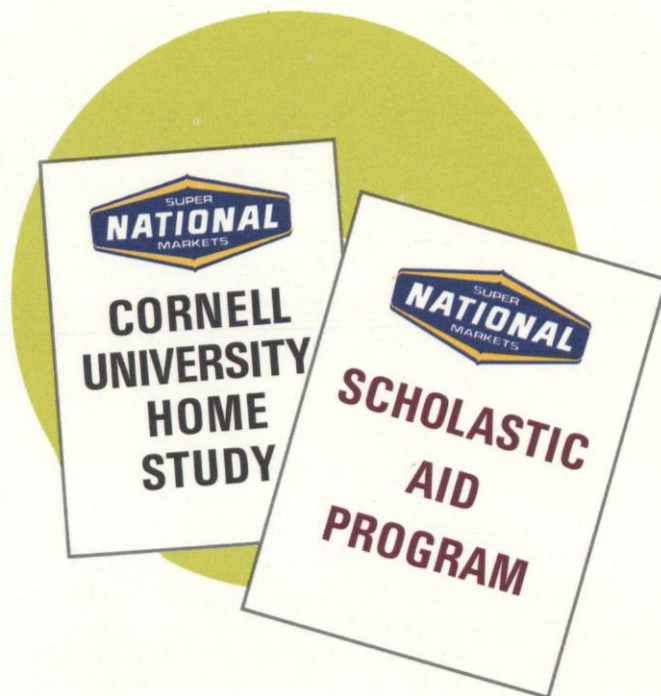
A new name . . . Nancy Ross . . . appeared on the National scene this year. As our Consumer Representative, she has proven an effective sounding board of customers' opinions for management.



Open Dating



National's new radial design supermarket, a new concept in store layout, is the pioneering pattern for supermarkets of tomorrow. Its bold departure from conventional design has won nationwide acclaim as the most creative and practical store layout in many years. And while the food industry watches the dynamic changes being made by National, we are seeking out more innovations that will lead the way to successful growth, progress and recognition for our company.



New Spirit

A strong spirit of teamwork is beginning to permeate our entire organization. New and better communication links have been established in all areas of our company through employee-oriented publications which keep our people in all divisions abreast of current happenings at National. Encouragement toward personal betterment and a bright future takes the form of educational opportunity through our excellent Scholastic Aid Program. This newly initiated plan encourages all National employees to prepare themselves for advancement through company sponsored educational programs with reimbursement for job-related courses of learning. The new Scholastic Aid Program at National includes a home study program administered by Cornell University in which industry-related programs are made available to employees.

Self-improvement is encouraged by a series of training programs conducted through our operating areas. Opportunity is provided for special development in our Management Training Program and in our specialized training sessions where latest techniques of supermarket operation are explained to qualified personnel.

The new spirit of teamwork grows stronger as a more optimistic outlook is realized by members of the National organization.



Notes to Consolidated Financial Statements

LONG-TERM DEBT

Under the terms of an agreement securing the revolving credit notes, the company may convert any or all of the revolving credit notes outstanding on July 1, 1973 to a bank term loan in an amount not to exceed \$39,000,000. Repayments are required from 1974 to 1979. Annual amounts due are included in the maturities of long-term debt shown below. Interest rates on the revolving credit notes and the term loan vary with the prime rate, being $\frac{1}{4}\%$ and $\frac{1}{2}\%$ over prime, respectively. The interest rate on the notes at May 12, 1972 was $5\frac{1}{4}\%$.

Aggregate maturities and sinking fund requirements under long-term loan agreements, exclusive of minor installments due on store building mortgage loans and assuming conversion of the \$39,000,000 of revolving credit notes to a term loan, are \$2,551,900 in 1973, \$5,025,800 in 1974, \$4,565,800 in 1975, \$6,515,800 in 1976, and \$7,922,400 in 1977.

DIVIDEND AND WORKING CAPITAL RESTRICTIONS

The revolving credit and term loan agreement contains certain restrictions which, among other things, restrict the company's payment of cash dividends and acquisition of its capital stock to earnings subsequent to April 3, 1971; accordingly, \$78,174,019 of retained earnings is not available for the payment of cash dividends or the acquisition of capital stock. In addition, the company is required to maintain consolidated working capital of not less than \$60,000,000; this requirement increases \$5,000,000 on March 31, 1973 and on March 29, 1975.

Under the terms of the indenture securing the 5% Sinking Fund Debentures, the company must maintain a current ratio of consolidated current assets to consolidated current liabilities, as defined in the indenture, of at least 2 to 1. At April 1, 1972, the current ratio as defined was 2.1 to 1.

OTHER LIABILITIES

Other liabilities include:

	April 1, 1972	April 3, 1971
Deferred income on sales and leasebacks	\$ 2,998,620	\$1,945,596
Capitalized lease obligation	2,070,000	2,200,000
Deferred income taxes	4,425,403	4,282,287
Reserve for self-insurance	800,000	800,000
	<u>\$10,294,023</u>	<u>\$9,227,883</u>

SALE AND LEASEBACK

During the year, the company sold for \$2,500,000 and leased back one of its warehouse facilities; a gain of \$1,160,000 was realized. This gain and a similar gain realized in 1971 on a sale and leaseback transaction are being amortized to income, net of applicable income taxes, over the lease terms.

LEASE COMMITMENTS

At April 1, 1972, the company and its subsidiaries had 712 leases (some of which contain percentage rental clauses) expiring more than three years after that date with minimum annual rentals amounting to approximately \$24,920,000 exclusive of taxes, insurance and maintenance payable by the lessee. Of this amount, approximately 55% applies to leases expiring within 10 years.

DEPRECIATION

Depreciation is calculated using the straight line composite method for all assets except buildings and leasehold improvements at rates which will amortize the cost of the assets over their estimated useful lives. Buildings and leasehold improvements are depreciated at straight line rates over their estimated useful lives.

DEFERRED INCOME TAXES

Deferred income taxes arise principally from the use of accelerated depreciation methods for tax purposes.

TAXES ON INCOME

Taxes on income in 1972 are lower in relation to pre-tax accounting income than is customary due primarily to investment tax credits of approximately \$950,000, which are reflected as a reduction (flow-through method) of taxes on income payable currently and certain non-taxable income.

Auditors' Report

TO THE SHAREHOLDERS OF
NATIONAL TEA CO.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation 55% owned by Loblaw Groceterias Co., Limited) AND SUBSIDIARIES as of April 3, 1971 and April 1, 1972, and the related statements of consolidated income, retained earnings and changes in financial position for the fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accountings records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Loblaw Inc. and Subsidiaries, a consolidated subsidiary, which statements reflect total assets constituting approximately 20% of the related consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Loblaw Inc. and Subsidiaries, is based solely upon the report of the other auditors.

In our opinion, based upon our examination and the report of other auditors referred to above, the accompanying consolidated financial statements referred to above present fairly the financial position of National Tea Co. and Subsidiaries as of April 3, 1971 and April 1, 1972, and the results of their operations and changes in financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Chicago, Illinois,
May 12, 1972.

STATEMENT OF CONSOLIDATED

Changes in Financial Position

	Fifty-Two Weeks Ended April 1, 1972	Fifty-Three Weeks Ended April 3, 1971
WORKING CAPITAL PROVIDED BY:		
Net income	\$ 8,920,253	\$ 7,635,822
Non-cash items deducted (added) in arriving at net income—		
Depreciation and amortization	17,407,987	16,885,079
Deferred income taxes	143,116	160,505
Other	(235,090)	—
Working capital provided by operations	\$26,236,266	\$24,681,406
Dispositions of property and equipment	6,280,833	6,302,020
Proceeds from bank term loan refinanced	11,500,000	—
Proceeds from equipment purchase obligations	3,011,093	—
Capitalized lease obligation	—	2,200,000
Total working capital provided	\$47,028,192	\$33,183,426
WORKING CAPITAL USED FOR:		
Cash dividends to shareholders	\$ 6,066,954	\$ 6,066,954
Additions to property and equipment	24,485,755	22,370,995
Maturities of long-term debt	4,365,009	6,131,929
Other, net	692,733	12,162
Total working capital used	\$35,610,451	\$34,582,040
Increase (decrease) in working capital	\$11,417,741	\$ (1,398,614)
INCREASE (DECREASE) IN WORKING CAPITAL REPRESENTED BY:		
Increase (decrease) in current assets—		
Cash	\$ (3,337,237)	\$ (427,691)
Accounts receivable	3,171,082	750,505
Inventories	(1,595,909)	8,760,888
Prepaid expenses, etc.	1,458,409	(1,267,355)
Real estate in process of development and sale	90,645	(255,258)
	\$ (213,010)	\$ 7,561,089
(Increase) decrease in current liabilities—		
Bank loans	\$ —	\$ 1,000,000
Current maturities of long-term debt	1,879,940	67,554
Accounts payable	8,341,684	(9,924,695)
Accrued liabilities	(302,719)	(649,516)
Income taxes	1,711,846	546,954
	\$11,630,751	\$ (8,959,703)
Increase (decrease) in working capital	\$11,417,741	\$ (1,398,614)

The accompanying notes are an integral part of this statement.

STATEMENTS OF CONSOLIDATED

Income and Retained Earnings

	Fifty-Two Weeks Ended April 1, 1972	Fifty-Three Weeks Ended April 3, 1971
INCOME:		
SALES	<u>\$1,613,853,162</u>	<u>\$ 1,590,854,763</u>
COSTS AND EXPENSES:		
Cost of sales, occupancy, buying and other operating expenses	\$1,355,103,190	\$1,351,156,568
Selling, general and administrative expenses	239,321,065	219,114,073
Interest expense, net	2,770,977	3,513,871
Profit sharing	298,000	322,000
Taxes on income—		
Payable currently	5,983,130	8,060,495
Deferred	563,870	160,505
	<u>\$1,604,040,232</u>	<u>\$1,582,327,512</u>
Income before minority interest	\$ 9,812,930	\$ 8,527,251
MINORITY INTEREST	(892,677)	(891,429)
Net income	<u>\$ 8,920,253</u>	<u>\$ 7,635,822</u>
Net income per common share	<u>\$ 1.18</u>	<u>\$ 1.01</u>
RETAINED EARNINGS:		
BALANCE—Beginning of period	\$ 78,174,019	\$ 76,605,151
ADD (DEDUCT):		
Net income	8,920,253	7,635,822
Dividends (\$.80 per share)	(6,066,954)	(6,066,954)
BALANCE—End of period	<u>\$ 81,027,318</u>	<u>\$ 78,174,019</u>

The accompanying notes are an integral part of these statements.

LIABILITIES

April 1, 1972

April 3, 1971

CURRENT LIABILITIES:

Bank loans	\$ 2,000,000	\$ 2,000,000
Current maturities of long-term debt	2,551,900	4,431,840
Accounts payable	57,198,238	65,539,922
Accrued liabilities	11,560,091	11,257,372
Income taxes	3,085,228	4,797,074
Total current liabilities	<u>\$ 76,395,457</u>	<u>\$ 88,026,208</u>

LONG-TERM DEBT:

Revolving credit notes (convertible into a bank term loan)	\$ 39,000,000	\$ 27,500,000
5% sinking fund debentures, due 1977	5,280,000	5,760,000
4% promissory notes, due serially to 1973	2,800,000	3,800,000
Equipment purchase obligations, due from 1973 to 1976	1,669,852	—
Installment mortgage notes, maturing from 1973 to 1983	484,311	2,028,079
3½ % subordinated debentures, due 1980	2,313,000	2,313,000
	<u>\$ 51,547,163</u>	<u>\$ 41,401,079</u>

OTHER LIABILITIES	<u>\$ 10,294,023</u>	<u>\$ 9,227,883</u>
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MINORITY INTEREST	<u>\$ 11,623,868</u>	<u>\$ 11,155,706</u>
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SHAREHOLDERS' INVESTMENT:

Common shares, \$4 par value, authorized 10,000,000 shares; issued 8,756,788 shares	\$ 35,027,152	\$ 35,027,152
Paid-in capital (no transactions during year)	30,823,955	30,823,955
Retained earnings	81,027,318	78,174,019
	<u>\$146,878,425</u>	<u>\$144,025,126</u>
Less cost of 1,173,095 common shares in treasury	(18,723,591)	(18,723,591)
	<u>\$128,154,834</u>	<u>\$125,301,535</u>
	<u>\$278,015,345</u>	<u>\$275,112,411</u>

Consolidated Balance Sheet

ASSETS

April 1, 1972

April 3, 1971

CURRENT ASSETS:

Cash	\$ 9,099,907	\$ 12,437,144
Accounts receivable	15,742,608	12,571,526
Inventories, at lower of average cost or market	124,051,027	125,646,936
Prepaid expenses, etc.	6,539,534	5,081,125
Real estate in process of development and sale	754,543	663,898
Total current assets	<u>\$156,187,619</u>	<u>\$156,400,629</u>

OTHER ASSETS	<u>\$ 5,829,146</u>	<u>\$ 3,510,137</u>
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PROPERTY AND EQUIPMENT, at cost:

Land	\$ 3,439,383	\$ 3,805,280
Buildings	7,234,572	9,985,671
Fixtures and equipment	172,705,477	168,496,069
Reserves for depreciation	(93,655,267)	(93,414,793)
Leasehold improvements, less amortization	25,585,994	25,640,997
	<u>\$115,310,159</u>	<u>\$114,513,224</u>

Cost of subsidiaries at dates of acquisition

in excess of book value, net	688,421	688,421
	<u>\$115,998,580</u>	<u>\$115,201,645</u>
	<u>\$278,015,345</u>	<u>\$275,112,411</u>

The accompanying notes are an

Financial Highlights

FOR THE FISCAL YEAR ENDED:	April 1, 1972	April 3, 1971 (53 Weeks)	March 28, 1970	March 29, 1969	December 30, 1967
Sales	\$1,613,853,162	\$1,590,854,763	\$1,512,282,211	\$1,192,627,535	\$1,147,220,942
Income before taxes on income . . .	\$ 16,359,930	\$ 16,748,251	\$ 20,415,804	\$ 14,380,880	\$ 16,148,225
Taxes on income . . .	6,547,000	8,221,000	9,743,000	6,752,000	6,866,000
Extraordinary items, net of taxes	—	—	—	(435,000)	1,491,515
Minority interest	892,677	891,429	804,383	—	—
Net income	\$ 8,920,253	\$ 7,635,822	\$ 9,868,421	\$ 7,193,880	\$ 10,773,740
Percent to sales	.55%	.48%	.65%	.60%	.94%
Per share*					
Before extraordinary items	\$ 1.18	\$ 1.01	\$ 1.30	\$.97	\$ 1.18
Extraordinary items . .	—	—	—	(.05)	.19
Net income	\$ 1.18	\$ 1.01	\$ 1.30	\$.92	\$ 1.37
Dividends per share . .	\$.80	\$.80	\$.80	\$.80	\$.80

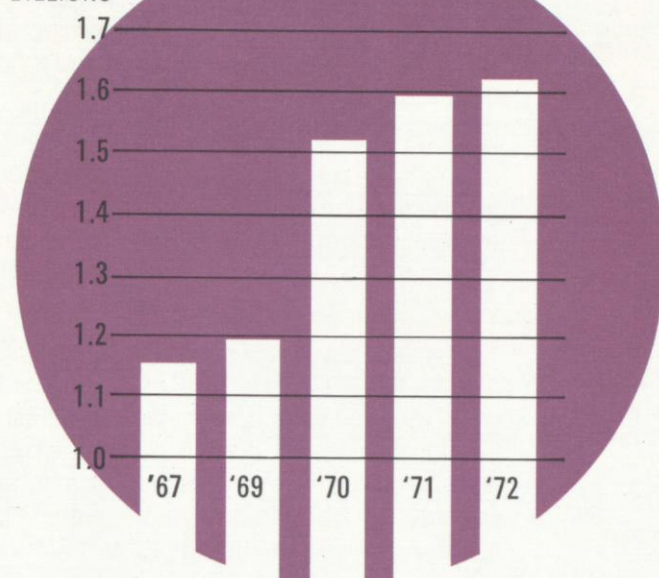
AT YEAR END:

Working capital	\$ 79,792,162	\$ 68,374,421	\$ 69,773,035	\$ 72,967,585	\$ 59,783,321
Property and equipment	115,998,580	115,201,645	116,017,749	111,443,241	86,106,124
Long-term debt	51,547,163	41,401,079	47,533,008	52,579,626	22,305,258
Shareholders' investment	128,154,834	125,301,535	123,732,667	119,931,200	122,415,374
Shares outstanding . . .	7,583,693	7,583,693	7,583,693	7,583,693	7,847,156
Book value per share	16.90	16.52	16.32	15.81	15.60
Supermarkets in operation	872	925	954	800	852

*Based upon weighted average of shares outstanding.

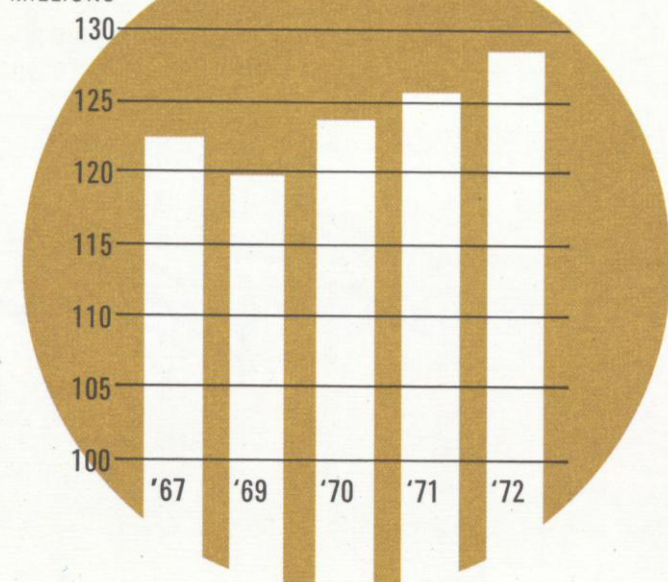
Sales

BILLIONS



Shareholders' Investment

MILLIONS



New Progress

Your management is proud to report a new record in sales of \$1,613,853,162. for National Tea Company. This was achieved in the face of a highly competitive marketing situation and this greater market penetration is a matter of special satisfaction to our new management team. The figures in this report also show an improvement in profit ratio which is directly reflected in shareholders' investment as indicated by the graph on this page. This also establishes an upward trend line which we are confident will continue in the same favorable direction.

President's Letter

To our Shareholders:

The year completed is the first full fiscal year under the direction of the new management team at National.

We have successfully accomplished an improvement in profits for your company. Earnings from operations after taxes have increased 16.8% over last year amounting to \$8,920,253 or \$1.18 per share as compared to \$7,635,822 or \$1.01 the previous year. Sales were the highest in your company's history at \$1,613,853,162.

We are proud of this record because it is the result of the new team spirit and effort, brought about by the collective action of capable and dedicated individuals that make up our entire company.

The new sales record and improvement in profit for your company was achieved through the planning of a young, capable and dynamic management team that makes up the National organization.

During the year the management organization was restructured and new profit programs were put into action. Modern merchandising methods, better expense control, improved data processing techniques for decision making and new intensive training of operating personnel are a few of the innovations that sparked our improvement this year.

With our new programs and approach to profit centers we are closing our marginal or unprofitable departments and stores. As of the close of the fiscal year we have 872 stores as compared to 925 last year. This coming year we plan to open

approximately 40 new stores in the 20,000 to 30,000 square feet range of total area. At least 8 of these stores will incorporate a radial concept of store layout, which will be a first in the supermarket industry. This is our own concept and could be one of the most exciting and most dramatic innovations in supermarketing.

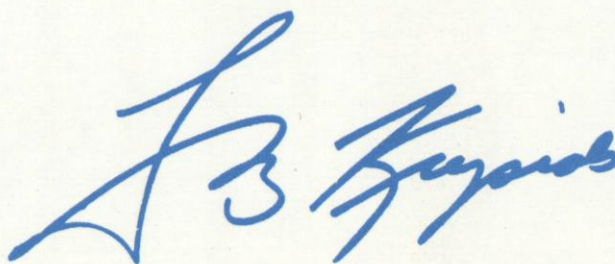
We are faced with a most difficult obstacle to profits because of the Phase I and Phase II control programs imposed by the government. However, we will support and have responded to our government's fight against inflation with our full cooperation and in a positive manner.

The philosophy of our company will be to offer all members of the National management team the opportunities to operate to their fullest possible potential, to give all our customers the best possible value for every food dollar spent in our supermarkets and to provide the highest possible return on investment for our stockholders.

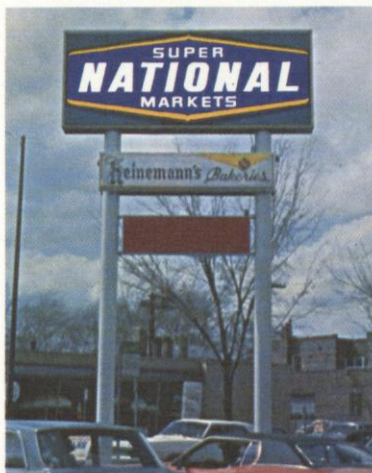
Our present company policies are successful and with our proven capable management team, prospects for the continuation of National's earnings growth in the coming year are good. The morale of the National organization is high and with the support of the company's stockholders and employees we have good reason to be optimistic for the future.

I wish to thank all the members of the National team, our stockholders, loyal suppliers and many friends for their constant help and loyal support.

Sincerely,



F. BRUCE KRYSIK
President and Chief Executive Officer



May 19, 1972



"Best Meats in America" is now a byword at National, and is endorsed enthusiastically by all our customers who have complete confidence in the quality of National meats. Store employees, advertising and signs all express pride in the high standards of quality of National meats. This feeling of confidence is justified, too, for our own meat packing plant in Denver, Colorado, provides the bulk of the corn fed beef cattle which find their way into the meat cases of National Super Markets everywhere. Through their constant attention to proper cattle feeding, breeding and conformation, National customers are assured of getting the "Best Meats in America."



